

# Summary of Business Rules for Accounting for and Reporting of Military Equipment

## Full Cost

### Objective

- Prescribe the costs that must be included in arriving at the full cost of an end item in accordance with the requirements of Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*.

### Baseline Valuation Methodology

- Obtain the acquisition cost of programs to date and planned number of end items using the following:
  - For programs in which production of end items has been completed, obtain actual acquisition costs and actual end items delivered from the accounting systems and accountability systems, respectively. If accounting data are no longer available or if retrieval is not practical, other sources such as budget information may be used.
  - For programs in the production phase for which there is considerable production and cost experience and for which there is evidence of program cost stability, obtain estimated acquisition cost data and planned number of end items from the Selected Acquisition Report; Exhibit P-40, Budget Item Justification Sheet; or similar sources.
  - For programs in early stages of production for which there are limited data about cost stability, obtain acquisition costs and the number of end items to be produced directly from the current acquisition contract or comparable data sources.
- Calculate the acquisition cost of each end item placed in service by (1) dividing actual acquisition costs by end items delivered, (2) dividing estimated acquisition costs by the planned number of end items to be produced, or (3) dividing contract costs by the number of end items to be delivered under the contract.
- Determine number of end items placed in service by date, and number of end items disposed of by date.
- Calculate depreciation through date of disposal or reporting date.
- Calculate the net book value of the end items acquired.
- Calculate the net book value of disposals/losses.

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- Calculate the baseline net book value by subtracting the net book value of disposals/losses from the net book value of the end items acquired.

### **Mid-Term Valuation Methodology**

- Capitalize all costs incurred to acquire and bring military equipment to a form and location suitable for its intended use. Examples of such costs include:
  - Amounts paid to vendors.
  - Government-furnished property installed in an end item, (e.g., an engine installed in an aircraft).
  - An appropriate share of the cost of the Government-furnished materials, (e.g., titanium used in the production of end items).
  - Direct cost of maintaining the Program Management Office.
- Capitalize separately special tooling and test equipment used in both production and post-production activities.